OPEB Commission

November 27, 2012

Agenda

1. **Approval of minutes of November 13, 2012 meeting**
2. **Review of draft report**
3. **Impact of federal health care reform**
4. **Phase 2 actuarial analysis: Scenarios and results**
5. **Other proposals to be considered for final report**
6. **Adjournment**

Review: Proposed Principles and Considerations:

Commitment to Intergenerational Equity

- Avoid shifting costs onto future generations
- Honor health care promise to retired career employees

Competitive Compensation Packages to Attract and Retain Employees

- Including quality, affordable health care for retirees

Urgent Need for Sustainable Government

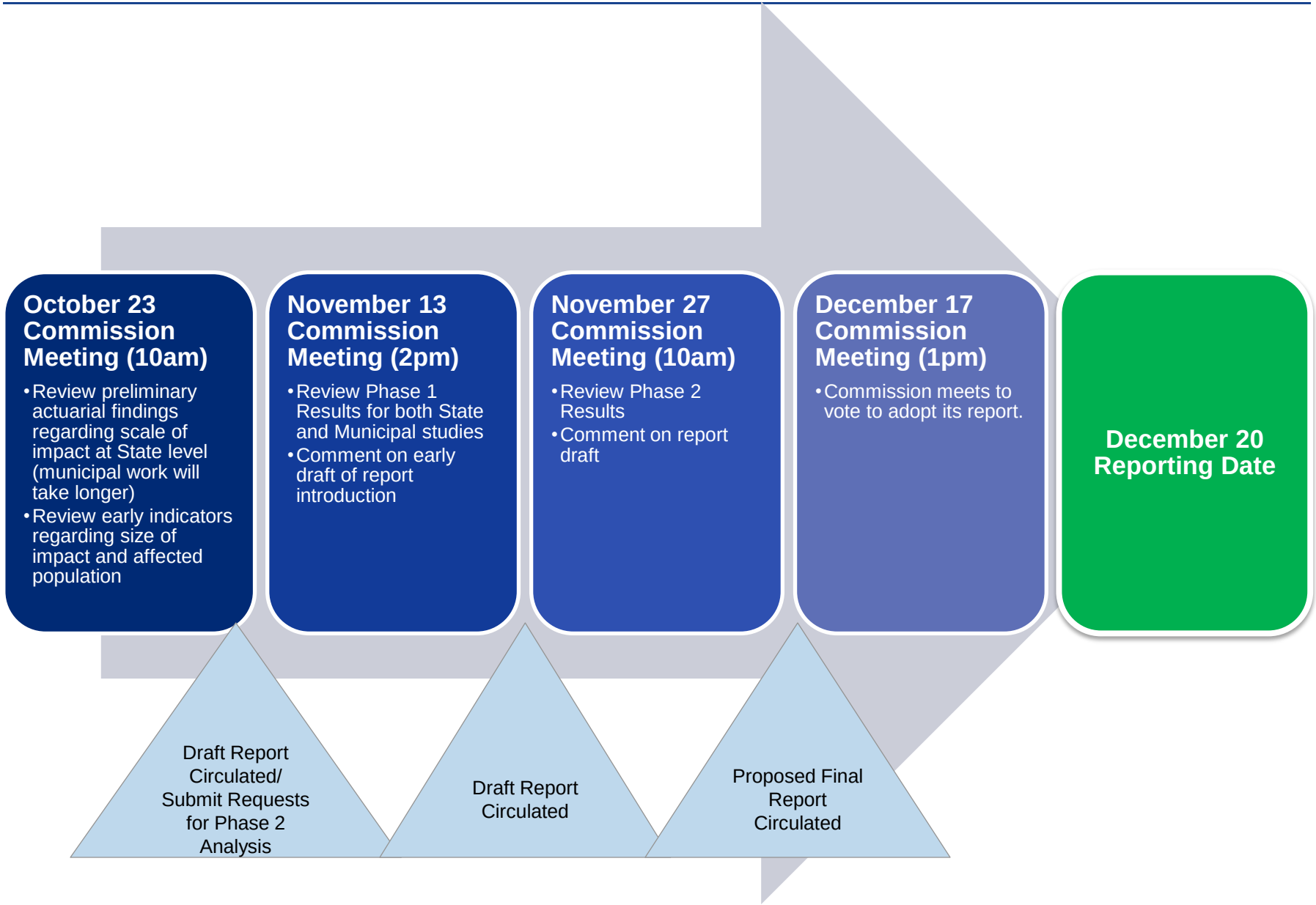
Prudent Allocation of Taxpayer Dollars Among Critical Services

- Transportation, education, benefits, etc.
- Maintenance of credit ratings

Alignment with Recent Changes to State and Federal Health Care Programs

- With a focus on access and cost control

Review: Process and Calendar



Review: Potential Strategies and Status

- Benefit Design
  - Includes minimum age, minimum years of service, and pro-rating
  - Discussion of Phase 2 scenarios to follow
- Cost Containment:
  - Establish metrics with automatic alarm/mechanism if cost growth metric is unsustainable
  - Report to emphasize role of municipal health care reform and health care cost containment
- Employee and Employer Funding:
  - Discuss proposal to include active contributions
  - Discuss proposal to facilitate use of the SRBTF by municipalities and other qualified government entities (see Slide 9)
- Best Practices
  - Recommend employee group waiver plan (EGWP) provided that implementation concerns are addressed (funding for support, timing)
  - Recommend standardization of part-time worker requirements
- Additional items for discussion and consideration:
  - Continuing service requirements (see Slide 10)
  - Implementation
  - Procurement
  - Survivor benefits
  - Chapter 32B Section 9A 1/2

Impact of Federal Health Care Reform

- Starting in January 2014, under the Affordable Care Act, eligibility for subsidized coverage will change:
  - Individuals with incomes between 133% and 400% of the federal poverty line (FPL)* without insurance or whose employer-subsidized insurance is not "affordable" will be eligible for federal tax subsidies to offset the cost of purchasing insurance through a Health Insurance Exchange.
  - Insurance is considered not "affordable" if the premium costs exceed 9.5% of income.**
  - Federal subsidies offset the cost of premiums so that households between 133% and 400% of the FPL are only required to contribute between 2% and 9.5% of their income.

- Subsidized health care under the ACA is different from that provided under MGL in two important ways:
  - It is available to households with income of up to 400% of the FPL ($44k for an individual; $60k for a couple; $88k for a family of four), vs. 300% under Commonwealth Care.
  - Access to subsidized care is based on income and the affordability tests described above. Commonwealth Care is more restrictive in that individuals who receive premium subsidies of at least 20% (individual coverage) or 33% (family coverage) from an employer are not eligible for state subsidies.

- These differences are relevant to the OPEB Commission for two reasons:
  - The ACA provides greater access to affordable insurance for early (pre-65) retirees up to 400% of the FPL than currently exists today.
  - The OPEB Commission may want to consider a recommendation to monitor and inform early retirees who are eligible for retiree insurance from their public employer but may be able to receive comparable coverage at a comparable cost through the Exchange.

*Individuals under 133% will have access to Medicaid (MassHealth) while those over 400% of the FPL will have access to the Exchange without federal subsidies. Medicare-eligible retirees will not be eligible for federal subsidies.
**Massachusetts may set its own affordability standards and provide additional subsidies to individuals whose insurance is considered unaffordable.

Phase 2 Actuarial Analysis: Scenarios

	1	2	3
Minimum Age	60 or 55 with 30 YOS	60	62
Minimum Years of Service (YOS)	15	20	20
Pro-Rating	50% of premium at 15 YOS to 80% of premium at 30 YOS (50/60/70/80% at 15/20/25/30 YOS)	50% of premium at 20 YOS to maximum available benefit at 30 YOS (e.g. for state, 50/65/80% at 20/25/30 YOS)	50% of premium at 20 YOS to maximum available benefit at 30 YOS (e.g. for state, 50/65/80% at 20/25/30 YOS)
Impacted Populations	*Option A:* -New employees -All current employees except those vested AND >55 *Option B:* -All new and current employees -For vested employees >55, pro-rate benefits until age 65 and provide maximum available benefit age 65+ *Option C:* -New employees -Current employees not yet vested	*Option A:* -New employees -Current employees *Option B:* -All new and current employees -For vested employees >55, pro-rate benefits until age 65 and provide maximum available benefit age 65+	-New employees -Current employees

Presentation from actuaries

Employer Funding

- State funding for retiree health care benefits is currently invested in the State Retiree Benefit Trust Fund (see presentation from 5/31/12 OPEB Commission meeting).
- The SRBTF is now available for municipalities and other government entities (G.L. c.32A,§24 and c.32B,§20).
- The Commission may wish to consider the following to ensure that this tool is “turn-key” for municipalities and other qualified government entities:
  - Provide a standard trust document.
  - Allow investment in the SRBTF to be overseen by either (1) the local retirement boards or (2) with appropriate local authority (e.g. Town Meeting).
  - Streamline the existing statutory language based on input from all stakeholders (MMA, DLS, PERAC, local CPAs, etc.).

Continuing Service Requirements - Overview

- At least sixteen other states have policies that limit retiree health coverage for individuals who were not in state service at the time of retirement (see details on next page).
- Most commonly, these states require that retirees:
  - Be employed by the state at the time of their retirement;
  - Be enrolled in the state health plan for a specified period prior to their retirement; or
  - Receive an immediate retirement benefit.
- According to the GIC, 1,038 deferred state retirees (those with vested pension rights who are not yet receiving a pension, many of whom are not yet of retirement age) are currently receiving benefits. This number does not include those with vested pension rights receiving benefits from another source.
- Preliminary estimates indicate that 5% or more of current state retirees receiving insurance from the GIC may have had breaks in service of one year or more before filing for retirement.
- ANF has discussed running additional analysis with the State Retirement Board to more accurately estimate the number of retirees who have enrolled in the GIC after a break in service, based on further direction from the OPEB Commission.

Sources: Center for State and Local Government Excellence, “At a Crossroads: The Financing and Future of Health Benefits for State and Local Government Retirees,” 2009. Office of Legislative Research, “OLR Backgrounder: The 2011 SEBEAC Agreement,” 2012.

Continuing Service Requirements – State Comparisons

- Of the 16 comparison states*:
  - 7 require state employment immediately or shortly before retirement
  - 7 require enrollment in the state plan prior to retirement
  - 5 require retirees to receive an immediate retirement benefit

*Some states have instituted more than one requirement.

California	Retirement date must be within 120 days of separation from the state employer.
Connecticut	Must have 15 years of service and transition directly into normal or early retirement OR 15 years of service and age plus years of service equal at least 75.
Florida	Must be covered by the state plan at the time of retirement; receive retirement benefits immediately at the time of retirement; and enroll in the plan at the time they retire.
Georgia	Must be entitled to an immediate annuity and have been enrolled in the state plan at the time of retirement.
Maine	Must have participated in the state plan for at least one year immediately prior to retiring.
Maryland	Must have retired directly from the state with at least five years of service OR have left state employment with at least ten years of service within five years of normal retirement age.
Michigan	Must receive an immediate retirement benefit.
New Jersey	Must have been a full-time employee at the time of retirement.
New York	Must have been enrolled in the state plan at the time of retirement.
Tennessee	Must have ten years of service with at least three years of insurance coverage immediately preceding retirement or 20 or more years of service with at least one year of coverage.
Vermont	Must have been enrolled in the state plan at the time of retirement.
Virginia	Must have been employed by the state immediately preceding retirement.
Washington	Must receive an immediate retirement allowance.
West Virginia	Must have been employed by the state immediately prior to retirement.
Wisconsin	Must receive an immediate retirement annuity.
Wyoming	Must have received state-sponsored insurance for at least one year prior to retirement.

Sources: Center for State and Local Government Excellence, “At a Crossroads: The Financing and Future of Health Benefits for State and Local Government Retirees,” 2009. Office of Legislative Research, “OLR Backgrounder: The 2011 SEBEAC Agreement,” 2012.